

**DAWSON COMMUNITY COLLEGE**  
**Financial and Compliance Audit Report**  
**For the Years Ended June 30, 2012 and 2011**  
**(Reissued)**



**Prepared Under Contract With:**  
**MONTANA LEGISLATIVE BRANCH, AUDIT DIVISION**  
**PO Box 201705, Helena MT 59620-1705**

# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
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Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

March 2014

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Dawson Community College for the two fiscal years ended June 30, 2012.

The audit was conducted by Joseph Eve, Certified Public Accountants, under a contract between the firm and our office. The contents of this report represent the views of the firm and not necessarily the Legislative Auditor. The College's written response to the report is included in the back of the audit report.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor

12C-06

# DAWSON COMMUNITY COLLEGE

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# **DAWSON COMMUNITY COLLEGE**

## **Organization**

**For the Years Ended June 30, 2012 and 2011**

### **BOARD OF TRUSTEES**

Ryan Sokoloski	Chairperson
Jim Squires	Vice Chairperson
Kay McDonough Jensen	Trustee
Bob Stanhope	Trustee
Don Kettner	Trustee
Alan Sevier	Trustee
Kim Stulc	Trustee
Deb Linn	Trustee

### **COLLEGE OFFICIALS**

Jane Baker	President
Justin Cross	Dean of Administrative Services

## INDEPENDENT AUDITORS' REPORT

**Board of Trustees  
Dawson Community College  
Dawson County  
Glendive, Montana**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of Dawson Community College, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the College's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the College's discretely presented component unit, Dawson College Foundation, Inc., for the years ended October 31, 2011 and 2010. These financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Dawson College Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Dawson College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of other auditors, provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities of Dawson Community College as of June 30, 2012 and 2011 and the aggregate discretely presented component unit of the College as of October 31, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 31, 2013 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**Dawson Community College  
Independent Auditors' Report  
Page 2**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other post employment benefits schedule of funding progress on pages 8 through 17 and 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements, Schedule of Expenditures - Student Financial Assistance Programs, Schedule of Full Time Equivalent and Functional Classification of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedules of Expenditures of Federal Awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*JOSEPH EVE*  
*Certified Public Accountants*

**Billings, Montana  
July 31, 2013, except as to note 16, which is as of March 28, 2014**

## Management's Discussion and Analysis



**DAWSON COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEARS ENDING JUNE 30, 2011 and 2012**

Dawson Community College (College) is a comprehensive, open access, publicly supported institution of higher education dedicated to serving the needs of those who seek enrichment through educational opportunities. The College exists to address individual needs, interests, and abilities while enhancing the economic, social and cultural attributes of the diverse communities it serves. The College accomplishes this purpose by providing high quality, affordable, flexible programs and services which are academically and geographically accessible. This purpose requires a strong commitment to the teaching and learning process by a service driven philosophy in a supportive environment.

**Financial and Other College Highlights**

**Outreach and Distance Education:**

The College continues to operate an Outreach program at the Watch East. Watch East is a six month alcohol treatment center. However, the program was drastically reduced as a result of decisions made by Watch East. The success rate for participants in this program continues to be high.

The CCC-Online network is the most successful distance delivery system offered at the College. CCC-Online students enrolled in 1,321 credits during the 2011 academic year and 1,595 credits during the 2012 academic year. The year to year growth rate was slightly greater than 20 percent.

The partnership with Ed2Go continues to provide short term online classes. This program continues to enjoy strong growth. Enrollment in 2010, 2011 and 2012 was 31 students, 61 students and 73 students respectively. The year to year growth rate was approximately 20 percent.

The College continued to develop and improve the Senior Academy. This program is geared for those individuals who are 50 years old and older. It is the College's belief that demand for outreach and distance education will continue to grow especially in the plus 50 segment. The College will continue to expend resources on developing this delivery methodology.

During the 2011 and 2012 fiscal years the College has collaborated with business and industry to develop energy related short courses. The main focus of this collaboration is safety training. The College will continue to develop in-house course offerings.

**Program Development:**

In the winter of 2006, the Board of Trustees approved the Engineering Technology program. The program was introduced during the 2007 fiscal year. This program struggled to meet enrollment projections in 2012. The program is being reviewed and will be revised for the 2014 academic year.

The College is working with area energy production companies, MSU-Billings, UM-Missoula and area vocational and community colleges to redesign several existing high demand programs to better meet the needs of the energy driven economy. Workforce demands in welding and fabrication remain strong. The expansion plan for Welding Technology includes adding specialized options to address current demands.

**Grants:**

During the 2011 fiscal year the College completed the energy conservation project awarded through an ARRA grant for energy conservation totaling \$700,000. The grant provided funding for necessary projects that will reduce energy cost for the foreseeable future.

The College received a two year Best Beginnings Councils Grant. The grant is focused on school readiness and challenges in rural eastern Montana. The service partners include readiness teams at Glendive, Miles City and Sidney.

**Enrollment (FTE):**

During the 2012 fiscal year total annualized enrollment at the College was 365 FTE and 2011 fiscal year total annualized enrollment was 419 FTE compared to total enrollment for the 2010 fiscal year of 448 FTE. Enrollment for fiscal years 2012 and 2011 were lower when compared to the enrollment for the 2010 fiscal year. The projected trend is an indication that the additional resources allocated to new programs, recruitment, marketing and advertising are needed to reverse the current enrollment trends.

**Reading the Annual Financial Report****Accounting Standards**

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of the College's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the College's financial condition and result of operations for the fiscal years ending June 30, 2011 and 2012. Comparative numbers, where presented, are for the fiscal years ending June 30, 2011 and 2012. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying

financial statements, notes to financial statements, and other supplementary information. College management is responsible for all of the financial information presented, including this discussion and analysis.

In June 1999, GASB issued Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities—an Amendment of GASB Statement 34, which applied the new reporting standards to public institutions. These new reporting standards are effective for fiscal year 2003 and as such comparative data will include fiscal years 2011 and 2012.

These financial reporting standards significantly changed the appearance and nature of the required financial information compared to prior standards. The major changes were: (1) financial statement are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, whereas previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by these accounting pronouncements, the basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the College's activities.

### **How the Financial Statements Relate to Each Other**

The basic financial statements referred to above are presented using the accrual basis of accounting. The accrual basis of accounting is a method of accounting which attempts to match revenues with expenses by recognizing revenue when a service is rendered and expense when the liability is incurred irrespective of the receipt or disbursement of cash. For example, revenue would be recognized when a student registers for a class not when the student ultimately pays for that class. Amounts that remain unpaid are recorded in accounts receivable. When final payment is received the balance in accounts receivable associated with the individual student will be zero.

The basic financial statements referred to above are interrelated and should be viewed in their entirety. However, each of the financial statements is unique and presents the financial information according to the purpose of the individual statement. The fundamental relationships between the statements are described below. The Statement of Net Assets presents a snap shot of the financial condition of the College on June 30. The Statement of Revenues, Expenses, and Changes in Net Assets present the results of activities for the College throughout the fiscal year. The Statement of Cash Flows summarizes activities that generate and consume cash (illustrating net cash inflow and outflow activities) during the fiscal year.

## Statement of Net Assets

The Statement of Net Assets presents the College's assets, liabilities, and net assets as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2011 and 2012. The data presented in the Statement of Net Assets aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement of Net Assets provides a picture of net assets and their availability for expenditure by the College. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first "Invested in Capital Assets, Net of Related Debt," represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of Invested in Capital Assets, Net of Related Debt. The second category is "Restricted Net Assets," which is divided into two categories, Expendable and Nonexpendable. Expendable restricted assets include resources the College is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Nonexpendable Restricted Net Assets consist of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal. Unrestricted Net Assets represent resources used for the College's general operations. They may be used at the discretion of the College's Board of Trustees to meet current expenses for any lawful purpose in support of educational and general and auxiliary activities.

The following is a summary of the Statement of Net Assets for each fiscal year:

<b>Condensed Statement of Net Assets</b>			
	<b>At 6/30/12</b>	<b>At 6/30/11</b>	<b>At 6/30/10</b>
Cash and Cash Equivalents	\$ 1,841,696	\$ 1,813,426	\$ 1,677,974
Accounts Receivables	\$ 478,877	\$ 555,628	\$ 581,036
Other Current Assets	\$ 151,840	\$ 144,670	\$ 151,248
<b>Total Current Assets</b>	<b>\$ 2,472,413</b>	<b>\$ 2,513,724</b>	<b>\$ 2,410,258</b>
Restricted Cash and Restricted Investments	\$ 2,022,678	\$ 1,816,425	\$ 1,608,132
Capital Assets	\$ 10,644,693	\$ 10,978,208	\$ 10,656,215
<b>Total Non-Current Assets</b>	<b>\$ 12,667,371</b>	<b>\$ 12,794,633</b>	<b>\$ 12,264,347</b>
<b>TOTAL ASSETS</b>	<b>\$ 15,139,784</b>	<b>\$ 15,308,357</b>	<b>\$ 14,674,605</b>
Total Current Liabilities	\$ 807,212	\$ 791,423	\$ 873,466
Total Non-Current Liabilities	\$ 5,032,162	\$ 5,191,371	\$ 5,028,774
<b>TOTAL LIABILITIES</b>	<b>\$ 5,839,374</b>	<b>\$ 5,982,794</b>	<b>\$ 5,902,240</b>
Invested In Capital, Net of Related Debt	\$ 6,405,963	\$ 6,434,623	\$ 5,816,995
Restricted-Expendable	\$ 1,866,245	\$ 1,674,361	\$ 1,776,646
Unrestricted	\$ 1,028,202	\$ 1,216,579	\$ 1,178,724
<b>TOTAL NET ASSETS</b>	<b>\$ 9,300,410</b>	<b>\$ 9,325,563</b>	<b>\$ 8,772,365</b>

Information significant to reading the Statement of Net Assets:

- **Cash and Cash Equivalents:** The increase in Cash and Cash Equivalents, from 2010 to 2011, is primarily from the increase in cash equivalents as the stock market recovered. From 2011 to 2012 the decrease in Current Assets is primarily from the decrease in student related Accounts Receivable.
- **Total Non-Current Assets:** The increase in Total Non-Current Assets, from 2010 to 2011, is primarily due to the increase in the value of capital assets for the roof replacement project.
- **Total Non-Current Liabilities:** The reduction in Total Non-Current Liabilities from 2010 to 2012 is primarily the result of payments made to service debt.
- **The Net Assets Invested in Capital Assets, Net of Related Debt:** This category is primarily made up of the value of buildings and land held by the College less accumulated depreciation and net of debt balances related to the capital assets. The decrease from 2011 to 2012 is mainly from the reduction in long term debt and depreciation of capital assets.
- **Restricted- Expendable Net Assets:** This category is primarily grant and debt service activities of the College.
- **Unrestricted:** This category is made up of operating activities, auxiliary activities, and also numerous designated activities which include funds designated as follows:
  1. **Student Activity Fee** – Any change in the Student Activity Fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. The Student Activity Fee is allocated and deposited into five separate agency accounts; 46% to Associated Student Body, 25.75% to Athletics, 12.75% to Publications, 12.75% to Institutional, and 2.75% to Theatre. The Student Government administers the Associated Student Body account, and the Board of Trustees or their designee administers the remaining accounts.
  2. **Library Fees** – Any change in the Library Fee must be approved by the Board of Trustees, and the Board of Regents. Library Fees are intended to augment, not replace, basic operating expenses of the library and may be used for:
    - a. Consumable supplies
    - b. Periodicals and holdings
    - c. Equipment and improvements

The annual amount budgeted from Library Fees is based on anticipated revenues generated from projected annual enrollment.

Library Fees are not intended for continuing personnel costs.

3. **Student Building Fees** – Any change in the Student Building Fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. Student Building Fees are collected specifically for the purpose of purchasing land, new construction, and making improvements to existing facilities. Use of Student Building Fees requires the approval of the Associated Student Body, the Board of Trustees, and the Board of Regents.
4. **Computer Fees** – Any change in the Computer Fee must be approved by the Board of Trustees, and the Board of Regents. Computer Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the College's IT/Banner system. This system is primarily used for student records, human resources, and student accounts receivable and financial accounting record keeping.
5. **Building Repairs and Maintenance Fees** – Any change in the Building Repairs and Maintenance Fee must be approved by the Board of Trustees, and the Board of Regents. Building Repairs and Maintenance Fees are for major repairs or maintenance of College owned building and grounds. This fee would typically be used for renovations and repairs.
6. **Technology Fees** – Any change in the Technology Fee must be approved by the Board of Trustees, and the Board of Regents. Technology Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the educational process.

### **Statement of Revenues, Expenses, and Changes in Net Assets**

The operating and nonoperating activities creating the changes in the College's total net assets are presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains and losses from investment and capital assets activities.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the College's mission.

Nonoperating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the College's operating expenses. Therefore, the College, like most public institutions, will expect to show an operating loss.

**Condensed Statement of Revenues, Expenses, and Changes  
in Net Assets**

	<b>For Fiscal Year Ending 6/30/12</b>	<b>For Fiscal Year Ending 6/30/11</b>	<b>For Fiscal Year Ending 6/30/10</b>
Federal and State Grants and Contracts	\$ 2,232,000	\$ 3,425,509	\$ 1,880,163
Tuition and Fees (Net of scholarship allowances)	\$ 710,204	\$ 885,140	\$ 761,920
Auxiliary activities	\$ 616,893	\$ 664,519	\$ 456,909
Other Revenue	\$ 562,132	\$ 683,043	\$ 1,101,029
<b>Total Operating Revenues</b>	<b>\$ 4,121,229</b>	<b>\$ 5,658,211</b>	<b>\$ 4,200,021</b>
Salaries and Benefits	\$ (3,638,000)	\$ (3,764,414)	\$ (3,838,789)
Operational Expenses	\$ (3,437,571)	\$ (3,946,330)	\$ (2,402,848)
Other Expenses	\$ (244,308)	\$ (159,707)	\$ (1,027,578)
Depreciation Expense	\$ (419,730)	\$ (416,938)	\$ (397,468)
<b>Total Operating Expenses</b>	<b>\$ (7,739,609)</b>	<b>\$ (8,287,389)</b>	<b>\$ (7,666,683)</b>
<b>Operating Income (Loss)</b>	<b>\$ (3,618,380)</b>	<b>\$ (2,629,178)</b>	<b>\$ (3,466,662)</b>
State and Local Appropriations	\$ 3,602,494	\$ 3,402,493	\$ 3,372,506
Other Revenue	\$ 175,585	\$ 272,217	\$ 231,269
Interest Expense	\$ (184,852)	\$ (202,674)	\$ (209,937)
<b>Total Non-Operating Revenues/(Expenses)</b>	<b>\$ 3,593,227</b>	<b>\$ 3,472,036</b>	<b>\$ 3,393,838</b>
<b>Income Before Other Rev., Exp., Gains or Losses</b>	<b>\$ (25,153)</b>	<b>\$ 842,858</b>	<b>\$ (72,824)</b>
Other Expenses	\$ -	\$ -	\$ -
<b>Change in Net Assets</b>	<b>\$ (25,153)</b>	<b>\$ 842,858</b>	<b>\$ (72,824)</b>
<b>Total Net Assets - Beginning of Year</b>	<b>\$ 9,325,563</b>	<b>\$ 8,772,369</b>	<b>\$ 8,845,193</b>
<b>Restatements</b>		<b>(289,664)</b>	
<b>Total Net Assets - End of Year</b>	<b>\$ 9,300,410</b>	<b>\$ 9,325,563</b>	<b>\$ 8,772,369</b>

Information regarding specific revenue and expense items:

- Federal and State Grants and Contracts: The increase from 2010 is primarily due to the Federal Direct Student Loans being awarded directly through the College. The new model began in fiscal year 2011. The reduction from 2011 to 2012 is due to the completion of the ARRA roofing project and completion of the majority of training and conversion to the Sun Guard software.
- Tuition and fees: In keeping with the Governor's CAP initiative tuition and fees for all students were frozen for fiscal year 2011 and 2012. The College maintained the amount and number of tuition waivers to remain competitive with offerings by educational institutions in bordering states. Revenues from workshops, federal and state funding, and distance education offerings continued to increase.

- Other Revenue: The reduction from 2010 to 2011 is the result of the expiration of the ARRA grant for the roofing project.
- Salaries and Benefits: The main reason for the reduction in Salaries and Benefits for fiscal years 2011 and 2012 is vacancy savings from positions which remained unfilled. The College granted salary increases for fiscal year 2011. Employees also received annual step increases for fiscal years 2011 and 2012. The College contribution for medical benefits for all employees covered by the MUS insurance plan was unchanged.
- Operational Expenses: The increase in 2011 was primarily due to funding and expenditures for the SunGard software conversion.
- Other Expenses: The decrease from 2010 to 2011 was primarily due to the payment of the SunGard software license in 2010 and reclassifying SunGard expenses to Federal and State Grants and Contracts beginning in the 2011 fiscal year.

### **Statement of Cash Flows**

The Statement of Cash Flows presents detailed information about the College's cash activity during the year. Operating cash flows will always be different from the operation loss on the Statement of Revenues, Expenses, and Changes in Net Assets. This difference occurs because the Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting and includes non-cash items such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows assists readers in assessing the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section shows the net cash provided (used) by the College's operating activities. The next section reflects the cash flows from noncapital financing activities and includes State appropriations for the College's educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities present cash used for the acquisition and construction of capital and related items. The next sections shows cash flows related to purchases, proceeds, and interest received from investing activities. The final section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.



### Condensed Statement of Cash Flows

	For Fiscal Year Ended 6/30/2012	For Fiscal Year Ended 6/30/2011	For Fiscal Year Ended 6/30/2010
<b>Cash Flows from Operating Activities</b>			
Tuition and Fees	\$ 1,109,394	\$ 1,095,743	\$ 745,706
Grants and Contracts	\$ 2,171,455	\$ 3,439,511	\$ 1,914,690
Cash paid to Employees	\$ (3,431,107)	\$ (3,513,707)	\$ (3,795,044)
Cash paid to Suppliers	\$ (1,795,678)	\$ (2,098,882)	\$ (1,008,123)
Cash paid for Scholarships and Student Support	\$ (1,748,027)	\$ (1,950,476)	\$ (966,246)
Auxiliary	\$ 607,443	\$ 677,812	\$ 455,125
Other Cash Flows	\$ 110,562	\$ 172,710	\$ (353,469)
<b>Net Cash Provided (used) by Operating Activities</b>	<b>\$ (2,975,958)</b>	<b>\$ (2,177,289)</b>	<b>\$ (3,007,361)</b>
State Appropriations	\$ 1,753,754	\$ 1,679,040	\$ 1,685,581
Local Appropriations	\$ 1,858,374	\$ 1,809,083	\$ 1,677,967
Other Flows from Noncapital Financing Activities	\$ -	\$ -	\$ 137,083
<b>Noncapital Financing Activities</b>	<b>\$ 3,612,128</b>	<b>\$ 3,488,123</b>	<b>\$ 3,500,631</b>
Principal payments on Long-Term Debt	\$ (304,855)	\$ (295,635)	\$ (283,557)
Interest payments on Long-Term Debt	\$ (186,165)	\$ (201,903)	\$ (214,495)
Other Flows from Capital and Related Financing Activities	\$ (61,215)	\$ (738,931)	\$ (414,206)
<b>Net Capital and Related Financing Activities</b>	<b>\$ (552,235)</b>	<b>\$ (1,236,469)</b>	<b>\$ (912,258)</b>
Investing Activities	\$ 26,794	\$ 34,453	\$ 231,269
<b>Net Increase (Decrease) in Cash</b>	<b>\$ 110,729</b>	<b>\$ 108,818</b>	<b>\$ (187,719)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>\$ 2,132,676</b>	<b>\$ 2,023,858</b>	<b>\$ 3,473,825</b>
* Cash and Cash Equivalents Reclassified			\$ (1,262,248)
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 2,243,405</b>	<b>\$ 2,132,676 *</b>	<b>\$ 2,023,858</b>

Information regarding specific cash flow items:

- Cash paid to Employees: The main reason for the reduction in fiscal years 2011 and 2012 is vacancy savings from positions which remained unfilled. The College granted salary increases for fiscal year 2011. Employees also received annual step increases for fiscal years 2011 and 2012. The College contribution for medical benefits for all employees covered by the MUS insurance plan was unchanged.
- Cash paid for Scholarships and Student Support: The increase from 2010 to 2011 is primarily due to the Federal Direct Student Loans being awarded directly through the College. The new model began in fiscal year 2011. Cash paid for scholarships and student support is correspondingly up for the same reason cited above.

### Pending Economic and Financial Issues

#### Population:

The College will continue to face challenges due to the rapid growth in the energy industry in Eastern Montana and the high paying jobs associated therein. Additionally, the population is projected to continue to grow at a rapid rate placing increased demands

on housing and escalating costs beyond the means of traditional student. The College will continue to explore avenues to attract traditional and non-traditional students to the campus and to offer a greater variety of energy related offerings and programs.

**Regional Economy:**

For the past five years Eastern Montana and Western North Dakota has been the hub for energy development in the region. Starting pay for entry level jobs exceeds \$60,000 per year and demand for workers is high. Recruiting students in the present economic environment continues to be difficult. The College will experience a greater degree of success in recruiting students with offerings relating to the energy industry.

**State Funding:**

In 2007 the three community colleges were successful in making positive changes to the community college funding mechanism. The Fixed Cost/Variable Cost funding formula reduces the impact budget reversions have on funding at the community college level. The current economic environment continues to challenge the adequacy of funding for Montana's community colleges. The uncertainty of this environment requires the College to continually pursue alternative funding sources and to seek opportunities for growth.

**Campus Integrated Data Base System:**

The College recognized the need for a student records, financial aid, student accounts and financial management system that conformed to current standards and has potential for future growth. The College in partnership with the Office of Commissioner of Higher Education and the Board of Regents began the process of implementing the SunGard Banner integrated data base in 2010. This process was expected to take one year with a completion date of July 2011. The reality of the situation was planning and implementation strategies were woefully inadequate. The process has been extremely challenging with major glitches in software, technology, employee turnover and very limited resources allocated to the conversion and implementation. These challenges resulted in a timeline that extended well into the 2013 fiscal year.

**Faculty and Staff:**

The College's compensation and benefits package continue to be competitive with other institutions in the region. This situation has strengthened the College's ability to attract preferred candidates for vacant positions.

**Student Enrollment:**

During the 2012 fiscal year the College experienced a decline in traditional student FTE. As a matter of economics potential students were making the choice to work in the energy industry and forego opportunities in higher education. The College has taken steps to better serve that population through energy industry offerings.

## Financial Statements

# DAWSON COMMUNITY COLLEGE

## Statements of Net Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,841,696	\$ 1,813,426
Taxes receivable	36,647	46,282
Student loan receivable	70,096	79,548
Accounts receivable	336,144	381,330
Grants receivable	35,990	48,468
Prepaid expenses	38,116	36,549
Inventory	<u>113,724</u>	<u>108,121</u>
Total current assets	<u>2,472,413</u>	<u>2,513,724</u>
Noncurrent assets		
Restricted cash	401,709	319,250
Restricted investments	1,620,969	1,497,175
Capital assets		
Land	137,518	137,518
Depreciable capital assets, net	<u>10,507,175</u>	<u>10,840,690</u>
Total capital assets	<u>10,644,693</u>	<u>10,978,208</u>
Total noncurrent assets	<u>12,667,371</u>	<u>12,794,633</u>
<b>Total assets</b>	<u>15,139,784</u>	<u>15,308,357</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	148,437	183,134
Wages payable	101,847	63,366
Room deposits	17,100	26,550
Interest payable	27,659	28,972
Current portion of long-term debt	318,535	304,855
Current portion of compensated absences	<u>193,634</u>	<u>184,546</u>
Total current liabilities	<u>807,212</u>	<u>791,423</u>
Noncurrent liabilities		
Long-term debt	3,920,196	4,238,730
Long-term portion of compensated absences	290,450	276,645
OPEB payable	<u>821,516</u>	<u>675,996</u>
Total noncurrent liabilities	<u>5,032,162</u>	<u>5,191,371</u>
<b>Total liabilities</b>	<u>5,839,374</u>	<u>5,982,794</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	6,405,963	6,434,623
Restricted for:		
Student loans	21,558	23,359
Scholarships, research, and other	1,754,508	1,538,709
Student activities funds	90,179	112,293
Unrestricted	<u>1,028,202</u>	<u>1,216,579</u>
<b>Total net assets</b>	<u>\$ 9,300,410</u>	<u>\$ 9,325,563</u>

See Accompanying Notes to the Financial Statements.

# DAWSON COMMUNITY COLLEGE

## Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Operating revenues</b>		
Federal grants and contracts	\$ 2,090,543	\$ 2,801,634
State and private grants and contracts	141,457	623,875
Tuition and fees (Net of scholarship allowance of \$426,183 and \$418,407)	710,204	885,140
Course and mandatory fees	309,152	351,678
Auxiliary activities		
Bookstore	103,447	140,223
Dormitory	513,446	524,296
Other revenue	<u>252,980</u>	<u>331,365</u>
<b>Total operating revenues</b>	<u>4,121,229</u>	<u>5,658,211</u>
<b>Operating expenses</b>		
Salaries	2,537,209	2,641,081
Benefits	1,100,791	1,123,333
Travel	195,350	181,840
Supplies	518,144	542,178
Contracted services	576,588	825,947
Repairs and maintenance	168,692	197,892
Student support	894,166	991,501
Utilities	153,407	159,090
Communication	60,736	32,055
Scholarships and grants	853,861	958,975
Bad debt expense	16,627	15,053
Equipment		41,799
Other operating expenses	244,308	159,707
Depreciation	<u>419,730</u>	<u>416,938</u>
<b>Total operating expenses</b>	<u>7,739,609</u>	<u>8,287,389</u>
<b>Operating income (loss)</b>	<u>(3,618,380)</u>	<u>(2,629,178)</u>
<b>Non-operating revenues (expenses)</b>		
Interest revenue	26,794	34,453
Interest (expense)	(184,852)	(202,674)
Gain on sale of assets	25,001	
Gain on investments	123,790	237,764
State appropriation	1,753,754	1,679,040
Local appropriation	<u>1,848,740</u>	<u>1,723,453</u>
<b>Total non-operating revenues (expenses)</b>	<u>3,593,227</u>	<u>3,472,036</u>
<b>Change in net assets</b>	(25,153)	842,858
<b>Total net assets, beginning of year</b>	<u>9,325,563</u>	<u>8,772,369</u>
<b>Restatement</b>		(289,664)
<b>Total net assets, beginning of year as restated</b>	<u>9,325,563</u>	<u>8,482,705</u>
<b>Total net assets, end of year</b>	<u>\$ 9,300,410</u>	<u>\$ 9,325,563</u>

See Accompanying Notes to the Financial Statements.

# DAWSON COMMUNITY COLLEGE

## Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Tuition and course fees	\$ 1,067,507	\$ 1,095,743
Grants and contracts	2,216,307	3,439,511
Collections on student loans	8,024	435
Bookstore	103,447	140,223
Dormitory	503,996	537,589
Cash paid to employees	(3,431,107)	(3,513,707)
Cash paid to suppliers	(1,795,678)	(2,098,882)
Cash paid for scholarships and student support	(1,748,027)	(1,950,476)
Payments for utilities	(153,407)	(159,090)
Other revenues	<u>252,980</u>	<u>331,365</u>
<b>Net cash provided (used) by operating activities</b>	<u>(2,975,958)</u>	<u>(2,177,289)</u>
<b>Cash flows from investing activities</b>		
Interest received	<u>26,794</u>	<u>34,453</u>
<b>Net cash provided (used) by investing activities</b>	<u>26,794</u>	<u>34,453</u>
<b>Cash flows from non-capital financing activities</b>		
State appropriations	1,753,754	1,679,040
Local appropriations	<u>1,858,374</u>	<u>1,809,083</u>
<b>Net cash provided (used) for non-capital financing activities</b>	<u>3,612,128</u>	<u>3,488,123</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of property and equipment	(86,216)	(738,931)
Principal payments on long-term debt	(304,855)	(295,635)
Interest payments on long-term debt	(186,165)	(201,903)
Cash received from sale of capital assets	<u>25,001</u>	
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(552,235)</u>	<u>(1,236,469)</u>
Net increase in cash and cash equivalents	110,729	108,818
<b>Cash and cash equivalents, beginning of year</b>	<u>2,132,676</u>	<u>2,023,858</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 2,243,405</u>	<u>\$ 2,132,676</u>

See Accompanying Notes to the Financial Statements.

# DAWSON COMMUNITY COLLEGE

## Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ (3,618,380)	\$ (2,629,178)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	419,730	416,938
Bad debt expense	16,627	15,053
Changes in working capital components		
(Increase) decrease in accounts receivable	45,186	(212,893)
Decrease in grants receivable	12,478	149,124
Decrease in student loans receivable	8,023	435
(Increase) decrease in inventory	(5,603)	9,944
(Increase) in prepaid expenses	(1,567)	(3,366)
(Decrease) in accounts payable	(49,895)	(52,223)
Increase in wages payable	38,481	43,761
(Decrease) in deferred revenue		(135,122)
Increase (decrease) in room deposits	(9,450)	13,293
Increase in compensated absences	22,892	9,760
Increase in OPEB liability	145,520	197,185
<b>Net cash provided (used) by operating activities</b>	<u><u>\$ (2,975,958)</u></u>	<u><u>\$ (2,177,289)</u></u>

**DAWSON COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Dawson Community College)**

**Statements of Financial Position**

**October 31, 2011 and 2010**

	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Assets</b>		
Cash and cash equivalents	\$ 375,193	\$ 136,629
Investments	851,401	663,349
Building fund	28,256	28,163
Interest receivable	1,080	
<b>Total assets</b>	<u><u>\$ 1,255,930</u></u>	<u><u>\$ 828,141</u></u>
<b>Liabilities</b>		
Due to College - building fund donations	\$ <u>34,354</u>	\$ <u>34,354</u>
<b>Total liabilities</b>	<u>34,354</u>	<u>34,354</u>
<b>Net assets</b>		
General and basic funds	1,207,460	779,751
Building fund	<u>6,141</u>	<u>6,048</u>
<b>Total net assets</b>	<u>1,213,601</u>	<u>785,799</u>
Unrealized gains and losses	<u>7,975</u>	<u>7,988</u>
<b>Total liabilities, net assets, and unrealized gain/loss</b>	<u><u>\$ 1,255,930</u></u>	<u><u>\$ 828,141</u></u>

See Accompanying Notes to the Financial Statements.



**DAWSON COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Dawson Community College)**

**Statements of Activities**

**For the Years Ended October 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>General and Basic Net Assets</b>		
<b>Revenues, Gains and Other Support</b>		
Dues	\$ 4,851	\$ 3,405
Contributions	478,013	140,289
Dividend income and net realized gains (losses)	4,316	1,394
Interest income	<u>24,308</u>	<u>20,397</u>
<b>Total revenues, gains and other support</b>	<u>511,488</u>	<u>165,485</u>
<b>Expenses</b>		
Scholarships	23,976	22,972
Fees	2,061	795
Musical instruments and supplies	2,500	4,646
Teacher development	8,228	8,566
Fund raising expenses		6,789
Miscellaneous	9,817	6,143
Charitable distributions	<u>37,197</u>	<u>30,603</u>
<b>Total expenses</b>	<u>83,779</u>	<u>80,514</u>
<b>Change in general and basic net assets</b>	<u>427,709</u>	<u>84,971</u>
<b>Building Fund - Net Assets</b>		
Restricted contributions		6,000
Due to Dawson College		(6,000)
Interest income	<u>93</u>	<u>150</u>
<b>Increase in building fund net assets</b>	<u>93</u>	<u>150</u>
<b>Change in net assets</b>	427,802	85,121
<b>Net assets - beginning of period</b>	<u>785,799</u>	<u>700,678</u>
<b>Net assets - end of period</b>	<u>\$ 1,213,601</u>	<u>\$ 785,799</u>

**DAWSON COLLEGE FOUNDATION, INC.**  
**(A Component Unit of Dawson Community College)**

**Statements of Cash Flows**

**For the Years Ended October 31, 2011 and 2010**

	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ 427,802	\$ 85,121
(Increase) decrease in unrealized gain on securities	(13)	(1,607)
(Increase) decrease in interest receivable	(1,080)	
(Increase) decrease in due to Dawson College	<u>6,000</u>	<u>6,000</u>
<b>Net cash provided (used) by operating activities</b>	<u><b>426,709</b></u>	<u><b>89,514</b></u>
<b>Cash flows from investing activities</b>		
(Increase) decrease in investments	(188,052)	(64,499)
Building fund increase	<u>(93)</u>	<u>(6,150)</u>
<b>Net cash provided (used) by investing activities</b>	<u><b>(188,145)</b></u>	<u><b>(70,649)</b></u>
 Net increase (decrease) in cash and cash equivalents	 238,564	 18,865
<b>Cash and cash equivalents, beginning of year</b>	<u><b>136,629</b></u>	<u><b>117,764</b></u>
 <b>Cash and cash equivalents, end of year</b>	 <u><u><b>\$ 375,193</b></u></u>	 <u><u><b>\$ 136,629</b></u></u>

See Accompanying Notes to the Financial Statements.

## Notes to the Financial Statements

# **DAWSON COMMUNITY COLLEGE**

## **Notes to the Financial Statements**

**Years Ended June 30, 2012 and 2011**

### **Note 1 - Nature of Business and Significant Accounting Policies**

This summary of significant accounting policies of Dawson Community College, a Community College District (the College), is presented to assist in understanding the College's financial statements. The financial statements and notes are representations of the College's management, which is responsible for their integrity and objectivity.

#### **A. Nature of Business - Reporting Entity**

Dawson Community College is a community college district which has received accreditation by the Northwest Association of Schools and Colleges. The College is managed by a Board of Trustees, each member of which is elected in district-wide elections. The college administration is appointed by and responsible to the Board of Trustees.

The County government of Dawson County provides substantial services to the College. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County does not significantly influence the operations of the College; thus, the College is treated as a separate and independent unit of local government.

The College, for financial purposes, includes all funds, account groups, organizations and boards for which the College is financially accountable, and other organizations for which the nature and significance of the relationship are such that the exclusion would cause the College's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a majority of the governing body, and by the imposition of will or the potential for financial benefit or burden.

In May 2002, GASB issued Statement No. 39, "Determining Whether Certain Organizations are Component Units, and Amendment of GASB Statement No. 14. " The College was required to adopt GASB No. 39 as of and for the year ended June 30, 2004. The statement requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. Accordingly, the College has identified the Dawson College Foundation, Inc. as a component unit. The Foundation's financial information is presented in statements separate from the financial data of the College. The Foundation's financial information was not included in the College's previous years' audit reports due to timing of the completion of the Foundation's audit.

The Dawson College Foundation, Inc., has been organized to coordinate fund-raising activities for the local college. These include the long-term care of and building of additional facilities at the college location in Glendive, Montana. The Foundation uses these funds to assist in purchasing needed educational equipment and supplies.

# **DAWSON COMMUNITY COLLEGE**

## **Notes to the Financial Statements**

**Years Ended June 30, 2012 and 2011**

### **Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued**

#### **B. Summary of Significant Accounting Policies**

##### **Basis of Accounting - College**

The accompanying College financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Grant revenues are reported only to the extent that they have been expended for their restricted purposes.

The College had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

##### **Basis of Accounting - Foundation**

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Revenues and expenses are recognized when earned or incurred. The financial statements reflect unrestricted, temporarily restricted and permanently restricted net assets and activities. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board designated or appropriated amounts, are reported as part of the unrestricted class.

Contributions to the Foundation are recognized when the donor makes a promise to give to the Foundation that is in substance, unconditional. The contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction.

##### **Cash and Cash Equivalents - College**

Cash and cash equivalents consists of bank deposits, cash held by the County Treasurer, and certificates of deposit.

##### **Cash and Cash Equivalents - Foundation**

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**DAWSON COMMUNITY COLLEGE**

**Notes to the Financial Statements**

**Years Ended June 30, 2012 and 2011**

**Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued**

**B. Summary of Significant Accounting Policies - Continued**

**Investments - College**

Investments are recorded at fair value. Investments in the State Short-term Investment Pool (STIP) may include certain types of derivatives. A derivative is any "contract whose value depends on, or derives from, the value of an underlying asset, reference rate or index." The STIP portfolio includes asset-backed securities and variable-rate (floating rate) instruments. (See Note 2 and 4.)

**Investments - Foundation**

Investments in equity securities with readily determinable fair values are measured at fair market value in the Statement of Financial Position. The unrealized gain or loss on investments is reflected in the Statement of Activities.

**Taxes Receivable**

The College records taxes receivable and revenue for property taxes that have been assessed but have not yet been collected. All property taxes are collected by the Treasurer of Dawson County, Montana. Property taxes attach as an enforceable lien on property as of January 1st and are levied on the 2nd Monday in August. They are due in two equal installments on November 30th, and May 31st, following the levy date.

The tax levies for the College for the years ended June 30, 2012 and 2011, are as follows:

	2012 Number of Mills	2011 Number of Mills
General Levy	45.57	50.52
Debt Service Levy	16.85	18.65
Adult Education Levy	4.64	4.85
Retirement Fund Levy	14.88	18.91
Total	<u>81.94</u>	<u>92.93</u>

The value of one mill was \$13,922 for 2010-2011 and \$16,228 for 2011-2012 fiscal years.

**Accounts Receivable**

Accounts receivable consists primarily of student tuition and fees. No allowance for doubtful accounts has been established as the College utilizes the direct write-off method.

**Grants Receivable and Deferred Revenue**

Grants receivable are for expenditures made on grants for which reimbursement has not been received. Deferred revenue represents amounts received in excess of expenses incurred, but which are to be expended in a future period.

**Inventories**

Inventories consist mainly of bookstore merchandise and are valued at cost on the first in, first-out method. The costs of inventory are recorded as expenditures when consumed.

# DAWSON COMMUNITY COLLEGE

## Notes to the Financial Statements

Years Ended June 30, 2012 and 2011

### **Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued**

#### **B. Summary of Significant Accounting Policies - Continued**

##### **Non-Current Assets**

Cash and investments that are externally restricted as to their use are classified as a noncurrent asset in the accompanying statement of net assets.

##### **Capital Assets and Depreciation**

Capital assets include building, improvements, and equipment. Capital assets are defined as assets with an individual initial cost of more than \$5,000 and a useful life in excess of one year for equipment and library resources and \$25,000 for buildings and improvements.

All purchased capital assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Property, plant, and equipment is depreciated under the straight-line method over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Buildings	50
Improvements	7-25
Equipment	5-20
Library Resources	10

##### **Donated Services**

The value of donated services are not recognized, since the types of services rendered do not create or enhance the College's non-financial assets, nor do they require specialized skills.

##### **Compensated Absences**

As required by law, employees are allowed to accumulate earned but unused vacation and sick leave benefits. Unused vacation benefits are 100% payable upon termination. Unused sick leave benefits are payable at 25% of the unused portion upon termination. This liability has been reported as a liability and an expense in the financial statements.

##### **Federal Awards and Grants**

The College has received federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in general expenditure disallowances under the terms of the grants, it is believed that any required reimbursement would not be material.

# DAWSON COMMUNITY COLLEGE

## Notes to the Financial Statements

Years Ended June 30, 2012 and 2011

### **Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued**

#### **B. Summary of Significant Accounting Policies - Continued**

##### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Net Assets**

The College's net assets are categorized as follows:

- Invested in capital assets, net of related debt - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted, expendable - net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire with the passage of time.
- Restricted, nonexpendable - net assets subject to externally imposed stipulations that the College maintain those assets permanently.
- Unrestricted - net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of management, the Board of Trustees, or the Board of Regents, or may otherwise be restricted by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for general operating purposes and capital asset acquisition.

##### **Revenues**

The College has classified its revenues as either operating or nonoperating according to the following criteria:

- **Operating Revenue** - includes activities that have the characteristics of exchange transactions, including student tuition and fees, net of scholarship allowances and discounts; sales and services of auxiliary services; and most grants and contracts.
- **Nonoperating Revenue** - nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", and GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments". Types of revenue sources that fall into this classification are state appropriations and investment income.



# **DAWSON COMMUNITY COLLEGE**

## **Notes to the Financial Statements**

**Years Ended June 30, 2012 and 2011**

### **Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued**

#### **B. Summary of Significant Accounting Policies - Continued**

##### **Use of Restricted Revenues**

When the College maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case by case basis. Restricted funds remain classified as restricted until they are expended.

##### **Recent Accounting Pronouncements**

In December 2010, GASB issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements." This statement identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Prior to this issuance of Statement 62, GASB Statements No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, and No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, had required that governments apply pre-November 30, 1989 FASB and AICPA Pronouncements to accrual-based financial statements (except fiduciary funds) that do not conflict with or contradict GASB standards. However, the applicable pronouncements were not specifically identified and the financial statement preparer had to use professional judgment in applying them. This statement will become effective for the College in fiscal year 2013.

The College is currently evaluating the provisions of GASB 62 and any impact on its financial statements.

##### **Federal and State Income Taxes - College**

The College, as a governmental entity, is exempt from federal and state income taxes.

##### **Federal and State Income Taxes - Foundation**

The Foundation has been granted a letter of exemption by the Internal Revenue Service which qualifies it as a nonprofit organization.

##### **Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge of goods and services provided by the College, and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

**DAWSON COMMUNITY COLLEGE**

**Notes to the Financial Statements**

**Years Ended June 30, 2012 and 2011**

**Note 1 - Nature of Business and Summary of Significant Accounting Policies - Continued**

**B. Summary of Significant Accounting Policies - Continued**

**Private Purpose Trust Funds**

The College's student activities funds are considered private purpose trust funds as they represent assets held in a fiduciary capacity for student activities and organizations and cannot be used to support the College's own programs. The College does not present separate statements for these funds as required by Governmental Accounting Standards Board Statement 34, but includes the funds as restricted cash and net assets in the Statement of Net Assets. The student activities funds cash and net assets as of June 30, 2012 and June 30, 2011 totaled \$90,179 and \$112,293, respectively.

**Note 2 - Cash and Cash Equivalents**

**Cash and Cash Equivalents - College**

At June 30, 2012 and 2011, cash and cash equivalents consisted of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 1,950	\$ 1,950
Deposits with financial institutions	79,173	81,946
Time certificate of deposit with financial institution	49,352	48,408
Invested in the Dawson County Investment Pool	<u>2,112,930</u>	<u>2,000,372</u>
Total cash and cash equivalents	<u>\$ 2,243,405</u>	<u>\$ 2,132,676</u>

The College follows the practice of pooling cash and investments of all funds with the Dawson County Treasurer, except for student loan fund deposits, agency funds, loan reserves, and Harold Ullman Funds, which are held in demand deposit and investment accounts with local financial institutions.

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible investments.

## **DAWSON COMMUNITY COLLEGE**

### **Notes to the Financial Statements**

**Years Ended June 30, 2012 and 2011**

#### **Note 2 - Cash and Cash Equivalents - Continued**

##### **Custodial Credit Risk - Deposits**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Dawson County government is considered to have \$250,000 FDIC coverage for demand deposits and \$250,000 FDIC coverage for time and savings deposits in each bank in the state.

As of June 30, 2012 and 2011 none of the College's bank balances of \$125,236 and \$134,589 were exposed to custodial credit risk.

##### **Cash and Cash Equivalents - Foundation**

As of October 31, 2011 and 2010, the Foundation's bank balances exceeded insurance limits by \$33,335 and \$0, respectively.

##### **Investment in the Dawson County Investment Pool**

The College participates in the Dawson County Investment Pool. Information pertaining to the County's investment pool can be obtained from the County's annual report. The investment pool is not registered with the Securities and Exchange Commission. The pool is managed by the Dawson County Treasurer, who reports to the Dawson County Commissioners. The pool unit is fixed at \$1 per share for purchases and redemptions. Participants may buy and sell fractional shares.

The county investment pool has money invested in the State Short-Term Investment Pool (S.T.I.P.) which includes asset-backed and variable-rate securities. Asset-backed securities have less credit risk than securities not backed by pledged assets. Market risk for asset-backed securities is the same as for similar non asset-backed securities. Variable-rate securities have credit risk identical to similar fixed-rate securities; the related market risk is more sensitive to changes in interest rates. However, their market risk may be less volatile than fixed-rate securities because their value will usually remain at or near par value as a result of their interest rates being periodically reset to maintain a current market yield. The Montana Board of Investments reported that they were not aware of any legal risks associated with any of the S.T.I.P. investments, as of June 30, 2012 and 2011.

## DAWSON COMMUNITY COLLEGE

### Notes to the Financial Statements

Years Ended June 30, 2012 and 2011

#### **Note 3 - Restricted Cash**

The College had restricted cash as follows as of June 30, 2012 and 2011.

	2012	2011
Restricted for dorm furniture replacement	\$ 30,271	\$ 30,212
Dorm deposits	17,100	39,157
Restricted for grants	147,001	69,724
Restricted for student loan programs	67,806	19,456
USDA loan reserve	49,352	48,408
Restricted for student organizations	90,179	112,293
<b>Total restricted cash</b>	<b>\$ 401,709</b>	<b>\$ 319,250</b>

#### **Note 4 - Restricted Investments** **College**

As of June 30, 2012 and 2011, the College had the following investments:

	2012	2011
Money market mutual funds	\$ 2,921	\$ 2,895
GNMA	154	166
Corporate bond mutual funds	87,191	82,785
Stock mutual funds	1,530,703	1,411,329
<b>Total investments</b>	<b>\$ 1,620,969</b>	<b>\$ 1,497,175</b>

#### **Foundation**

The Foundation's investments consist of certificates of deposit, securities, and mutual funds, as follows:

	2012	2011
Certificates of deposit	\$ 309,716	\$ 348,400
Charles Schwabb-Hoyt account	237,586	
Charles Schwabb-basketball fund	23,139	
Vanguard fund		54,709
Edward Jones-stocks, mutual funds	76,090	15,899
Edward Jones - bonds	204,870	244,341
<b>Total investments</b>	<b>\$ 851,401</b>	<b>\$ 663,349</b>

#### **Interest Rate Risk**

The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The College's investments in the State Short-Term Investment Pool (through the Dawson County Investment Pool) and various open-ended mutual funds can be liquidated at any time and are therefore not subject to interest rate risk.

#### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College has no investment policy that would limit its investment choices.

# DAWSON COMMUNITY COLLEGE

## Notes to the Financial Statements

Years Ended June 30, 2012 and 2011

### Note 4 - Restricted Investments - Continued

#### Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of a failure of a counterparty (the party that pledges collateral or repurchase agreement securities to the College or that sells investments to or buys them for the College), the College will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The College currently does not have an investment policy for custodial credit risk. As of June 30, 2012 and 2011, only \$155 and \$166 of the College's investments were exposed to custodial credit risk, respectively.

### Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2012, is summarized as follows:

	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012
Capital assets not being depreciated				
Land	\$ 137,518	\$	\$	\$ 137,518
Total capital assets not being depreciated	<u>137,518</u>	<u>0</u>	<u>0</u>	<u>137,518</u>
Capital assets being depreciated				
Buildings	12,738,048			12,738,048
Equipment	1,388,706	43,517	(89,833)	1,342,390
Improvements	1,197,174	42,698		1,239,872
Library inventory	<u>396,396</u>			<u>396,396</u>
Total capital assets being depreciated	<u>15,720,324</u>	<u>86,215</u>	<u>(89,833)</u>	<u>15,716,706</u>
Less accumulated depreciation				
Buildings	(3,360,205)	(250,251)		(3,610,456)
Equipment	(826,872)	(111,213)	89,833	(848,252)
Improvements	(355,051)	(52,187)		(407,238)
Library inventory	<u>(337,506)</u>	<u>(6,079)</u>		<u>(343,585)</u>
Total accumulated depreciation	<u>(4,879,634)</u>	<u>(419,730)</u>	<u>89,833</u>	<u>(5,209,531)</u>
Net capital assets being depreciated	<u>10,840,690</u>	<u>(333,515)</u>	<u>0</u>	<u>10,507,175</u>
<b>Net capital assets</b>	<b><u>\$10,978,208</u></b>	<b><u>\$ (333,515)</u></b>	<b><u>\$ 0</u></b>	<b><u>\$10,644,693</u></b>

# DAWSON COMMUNITY COLLEGE

## Notes to the Financial Statements

Years Ended June 30, 2012 and 2011

### **Note 5 - Capital Assets - Continued**

Capital assets activity for the year ended June 30, 2011, is summarized as follows:

	Balance 7/1/2010	Additions	Deletions	Balance 6/30/2011
Capital assets not being depreciated				
Land	\$ 137,518	\$	\$	\$ 137,518
Total capital assets not being depreciated	137,518	0	0	137,518
Capital assets being depreciated				
Buildings	12,738,048			12,738,048
Equipment	1,461,635	13,516	(86,445)	1,388,706
Improvements	471,759	725,415		1,197,174
Library inventory	396,396			396,396
Total capital assets being depreciated	15,067,838	738,931	(86,445)	15,720,324
Less accumulated depreciation				
Buildings	(3,108,349)	(251,856)		(3,360,205)
Equipment	(806,672)	(106,645)	86,445	(826,872)
Improvements	(302,693)	(52,358)		(355,051)
Library inventory	(331,427)	(6,079)		(337,506)
Total accumulated depreciation	(4,549,141)	(416,938)	86,445	(4,879,634)
Net capital assets being depreciated	10,518,697	321,993	0	10,840,690
<b>Net capital assets</b>	<b>\$10,656,215</b>	<b>\$ 321,993</b>	<b>\$ 0</b>	<b>\$10,978,208</b>

### **Note 6 - Compensated Absences**

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, at June 30, 2012 and 2011, was as follows:

	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012
Vacation and sick leave	\$ 461,191	\$ 127,765	\$ (104,872)	\$ 484,084

	Balance 7/1/2010	Additions	Deletions	Balance 6/30/2011
Vacation and sick leave	\$ 451,431	\$ 131,231	\$ (121,471)	\$ 461,191

# DAWSON COMMUNITY COLLEGE

## Notes to the Financial Statements

Years Ended June 30, 2012 and 2011

### Note 7 - Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 were as follows:

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012	Amounts Due Within One Year
Stockman Bank	\$ 530,985	\$	\$ (24,973)	\$ 506,012	\$ 25,702
USDA Rural Development	610,484		(10,332)	600,152	10,903
General Obligation Bonds	2,940,000		(170,000)	2,770,000	180,000
Mid Rivers Communication	158,333		(50,000)	108,333	50,000
InterCap Loan	303,783		(49,550)	254,233	51,930
	<u>\$ 4,543,585</u>	<u>\$ 0</u>	<u>\$ (304,855)</u>	<u>\$ 4,238,730</u>	<u>\$ 318,535</u>

Changes in long-term liabilities for the year ended June 30, 2011 were as follows:

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011	Amounts Due Within One Year
Stockman Bank	\$ 552,469	\$	\$ (21,484)	\$ 530,985	\$ 24,973
USDA Rural Development	622,357		(11,873)	610,484	10,332
General Obligation Bonds	3,105,000		(165,000)	2,940,000	170,000
Mid Rivers Communication	208,333		(50,000)	158,333	50,000
InterCap Loan	351,061		(47,278)	303,783	49,550
	<u>\$ 4,839,220</u>	<u>\$ 0</u>	<u>\$ (295,635)</u>	<u>\$ 4,543,585</u>	<u>\$ 304,855</u>

**DAWSON COMMUNITY COLLEGE**

**Notes to the Financial Statements**

**Years Ended June 30, 2012 and 2011**

**Note 7 - Long-Term Liabilities - Continued**

Long-term debt consists of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Note payable to Stockman Bank of \$700,000 originated on February 21, 2000. Payments of \$58,250 including both principal and interest, are due on February 10 each year. The note will mature in 2025. Interest is payable at 6.25% per annum, with the interest rate to be recalculated every five years. This note is secured by the dormitory and its contents. This note is secured by deeds of trust on real estate and improvements of the student dormitories and adjacent parking area. The note is also secured by any fixtures and equipment located in the dormitories, along with an assignment of rental revenue from all of the student dormitories owned by the College.	\$ 506,012	\$ 530,985
Note payable to the United States Department of Agriculture - Rural Development, originated on February 21, 2000, for \$700,000. Principal and interest payments of \$39,410 are due on February 21 each year for 40 years. Interest is payable at 4.75% per annum. This note is secured by an assignment of rental revenues from all existing and hereinafter acquired student dormitory facilities owned by the College.	600,152	610,484
On September 1, 2004, the College issued general obligation bonds at a purchase price of \$4,000,000 and an interest rate of 2.9%-4.35% to pay a portion of the costs of designing, constructing, furnishing and equipping a library and learning center expansion project and for the construction of a new performing arts center/gymnasium. The bonds bear interest payable semiannually on January 1 and July 1 each year, commencing January 1, 2005. The bonds mature beginning July 1, 2005 through 2022.	2,770,000	2,940,000
Note payable to Mid Rivers Communications of \$400,000 originated on October 25, 2004. Principal payments of \$4,167 are due monthly. The note will mature in 2014. This is an interest-free loan and is secured by the aforementioned construction project.	108,333	158,333



# DAWSON COMMUNITY COLLEGE

## Notes to the Financial Statements

Years Ended June 30, 2012 and 2011

### Note 7 - Long-Term Liabilities - Continued

The InterCap Loan of \$500,000 originated on May 6, 2005. Payments of principal and interest are due semiannually on February 15 and August 15. Payments consist of a variable principal portion and interest computed at 4.75%. The loan is secured by the aforementioned construction project.

	<u>254,233</u>	<u>303,783</u>
Total long-term debt	4,238,730	4,543,585
Less: current maturities	<u>(318,535)</u>	<u>(304,855)</u>
Total long-term debt, net	<u>\$ 3,920,195</u>	<u>\$ 4,238,730</u>

Approximate future annual minimum principal and interest payments as of June 30, 2012 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 318,535	\$ 179,232	\$ 497,767
2014	334,666	166,452	501,118
2015	302,183	158,059	460,242
2016	309,026	148,454	457,480
2017	292,867	138,372	431,239
2018 - 2022	1,493,444	455,444	1,948,888
2023 - 2027	816,756	160,039	976,795
2028 - 2032	119,208	77,842	197,050
2033 - 2037	149,528	43,710	193,238
2038 - 2042	<u>102,517</u>	<u>9,783</u>	<u>112,300</u>
Total	<u>\$ 4,238,730</u>	<u>\$ 1,537,387</u>	<u>\$ 5,776,117</u>

### Note 8 - Retirement Plans

The College participates in two state-wide, multiple-employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, and the Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, death, and disability benefits to plan members and beneficiaries.

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. The reports for the Teachers' Retirement System can be obtained at P.O. Box 200139, 1500 Sixth Ave., Helena, MT 59620-0139. The reports for the Public Employees Retirement System can be obtained at P.O. Box 200131, 1712 Ninth Ave., Helena, MT 59620-0131. The financial statements for the Public Employees Retirement System include activity for a defined benefit and a defined contribution retirement plan. The defined contribution plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be commingled with those of another plan.

## DAWSON COMMUNITY COLLEGE

### Notes to the Financial Statements

Years Ended June 30, 2012 and 2011

#### **Note 8 - Retirement Plans - Continued**

Contribution rates, expressed as a percentage of covered payroll, which are determined by State law, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
TRS	7.47 %	7.15 %	14.62 %
PERS (hired before 7/1/2011)	7.07 %	6.90 %	13.97 %
PERS (hired after 7/1/2011)	7.07 %	7.90 %	14.97 %

The amounts contributed by both the employees and the College for the prior three years ended June 30, were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
TRS	\$ 304,267	\$ 263,290	\$ 296,603
PERS	<u>112,797</u>	<u>108,176</u>	<u>99,383</u>
Total	<u>\$ 417,064</u>	<u>\$ 371,466</u>	<u>\$ 395,986</u>

The State of Montana contributes .37% of the employees' wages covered by PERS, and 2.95% of the employees' wages covered by TRS, which are considered on-behalf payments. The College did not record this contribution in its financial statements, as required by generally accepted accounting principles.

#### **Note 9 - Post Employment Benefits Other Than Pensions**

**Authorization:** Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare-eligible age (65) (Sec. 2-18-704(a)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interest of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible College retirees may participate in the health insurance plan provided that they contribute to the cost of the plan.

**Plan Description:** The Dawson Community College Employee Health Plan participates with the Montana University System Employee Group Benefits Plan. Former employees who retire from the College and eligible dependents may continue to participate in the College's health and hospitalization plan for medical prescriptions insurance coverage. The College subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at the blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because an actuarial basis, their current and future claims, are expected to result in higher costs to the plan on average than those of active employees.

## DAWSON COMMUNITY COLLEGE

### Notes to the Financial Statements

#### Years Ended June 30, 2012 and 2011

##### **Note 9 - Post Employment Benefits Other Than Pensions - Continued**

Eligibility: Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree benefits. The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from \$556 to \$621 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$278 to \$311 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee.

Financial and Plan Information: The MUS Group Benefits Plan does not issue a stand-alone financial report, but is subject to audit as part of the State of Montana's Basic Financial Statements, included in the Comprehensive Annual Financial Report (CAFR). A copy of the most recent CAFR can be obtained online at <http://afsd.mt.gov/CAFR/CAFR.asp> or by contacting the Montana Department of Administration, PO Box 200102, Helena, MT 59620-0102.

A schedule of funding progress contained in the Required Supplementary Information immediately following the notes to the financial statements presents multi-year trend information.

The plan is considered to be a multi-employer agent plan. All units of the MUS fund the postemployment benefits on a pay-as-you-go basis from general assets. The College's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For the College for the 2011 and 2012 fiscal years, the obligations were based on the July 1, 2011 census. At that time, the number of active College participants in the health insurance plan was fifty nine. The total number of inactive (retiree and dependent) participants was twenty eight. During the years ended June 30, 2012 and June 30, 2011 the College contributed \$493,717 and \$478,181, respectively, for actively employed participants, whose annual covered payroll totaled approximately \$2,500,000. The College does not contribute to the plan for retirees or their dependents.

Actuarial methods and assumptions: Following are the newly applied actuarial methods and assumptions for the most recent valuation:

(1) Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

(2) Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

# DAWSON COMMUNITY COLLEGE

## Notes to the Financial Statements

Years Ended June 30, 2012 and 2011

### **Note 9 - Post Employment Benefits Other Than Pensions - Continued**

(3) Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

(4) The actuarial methods and significant assumption are

- a) Projected Unit funding method.
- b) Actuarial value of assets is fair value.
- c) Discount rate is 4.25%
- d) Salary scale is 4.5%
- e) Healthcare cost trend rate is 10% for fiscal year ended 6/30/12 grading to 5.0% for fiscal year ending 6/30/21.
- f) Past service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 2.5% per year.

Annual OPEB Cost and Net OPEB Obligations: The following table shows the College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB obligation:

<u>Description</u>	<u>2012</u>	<u>2011</u>
Annual Required Contribution	\$ 116,790	\$ 176,836
Interest on Net OPEB Obligation	<u>28,730</u>	<u>20,349</u>
	<u>145,520</u>	<u>197,185</u>
Annual OPEB Cost (Expense)	145,520	197,185
Increase in Net OPEB Obligation	145,520	197,185
Net OPEB Obligation, Beginning of Year	675,996	189,147
Restatement	<u>0</u>	<u>289,664</u>
Net OPEB Obligation, Beginning of Year as Restated	<u>675,996</u>	<u>478,811</u>
Net OPEB Obligation, End of Year	<u>\$ 821,516</u>	<u>\$ 675,996</u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2012 and 2011:

<u>Fiscal Year Ended</u>	<u>Annual</u>		<u>Percentage</u>	
<u>OPEB Obligation</u>	<u>OPEB Cost</u>	<u>Contribution</u>	<u>of Annual</u>	<u>Net Liability</u>
			<u>OPEB Cost</u>	
June 30, 2012	\$ 145,520	\$ 0	0.00 %	\$ 145,520
June 30, 2011	\$ 197,185	\$ 0	0.00 %	\$ 197,185

# DAWSON COMMUNITY COLLEGE

## Notes to the Financial Statements

### Years Ended June 30, 2012 and 2011

#### **Note 9 - Post Employment Benefits Other Than Pensions - Continued**

**Funded Status and Funding Progress:** The funded status of the plan as of June 30, 2012 and 2011 was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit credit (b)	Unfunded AAL (UAAL) (b/a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
July 1, 2011	0	\$ 1,234,517	\$ 1,234,517	0.00 %	\$ 2,641,259	46.73 %
July 1, 2009	0	1,612,783	1,612,783	0.00	4,194,987	38.45 %

#### **Note 10 - Operating Lease Obligations**

The College entered into a long-term building lease in March 2012. The lease is for a term of three years, terminating February 28, 2015, with an option to extend for an additional two years. Long-term leases are treated as operating leases for terms of up to sixty months.

The College also leases an arena for the rodeo teams' use. The lease is for a three year term which began with the 2011 fall semester. The College leases the arena for six months during the school year.

During the years ended June 30, 2012 and June 30, 2011, rentals under long-term lease obligations were \$19,728 and \$15,164, respectively. Future obligations over the primary terms of the College's long-term leases are as follows:

Year Ending June 30	Amount
2013	\$ 24,548
2014	13,840
2015	9,600
Total	<u>\$ 47,988</u>

#### **Note 11 - Related Party Transactions**

The College's accounts receivable includes \$28,256 due from the Foundation for building fund donations at both June 30, 2012 and 2011.

#### **Note 12 - Economic Dependence**

The College receives substantial support from state and local appropriations, property tax revenues, and federal and state grants and contracts. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the College's programs and activities.

#### **Note 13 - Risk Management**

The College faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e. errors and omissions, d) environmental damage, and e) workers' compensation, i.e. employee injuries. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional

## **DAWSON COMMUNITY COLLEGE**

### **Notes to the Financial Statements**

#### **Years Ended June 30, 2012 and 2011**

##### **Note 13 - Risk Management - Continued**

liabilities. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

##### **Note 14 - Subsequent Events - Foundation**

In accordance with ASC No. 855, Dawson College Foundation, Inc. evaluated subsequent events through October 2, 2012, the date its financial statements were issued.

##### **Note 15 - Contingent Liabilities and Commitments**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the College expects such amounts, if any, to be immaterial.

##### **Note 16 - Financial Statement Restatements**

The College is restating its financial statements for the years ended June 30, 2012 and 2011 due to misstatements detected while preparing its fiscal year 2013 financial statements, as follows:

###### **FYE June 30, 2011**

The other post employment benefits liability recorded as of July 1, 2010 was understated by \$289,664. As a result, a prior period adjustment of \$289,664 is made to the beginning net assets amount of \$8,772,369. The restated net assets as of July 1, 2011 are \$8,482,705.

Additionally, \$602,294 was reclassified from "state and private grants and contracts" to "federal grants and contracts." Total operating revenues of \$5,658,211 remain unchanged.

###### **FYE June 30, 2012**

Grants receivable, accounts payable, and revenues were misstated for the College's GEAR UP fund. As a result, grants receivable was increased from \$10,784 to \$35,990, a \$25,206 increase. Accounts payable was reduced from \$173,643 to \$148,437, a \$25,206 decrease. Operating revenues were increased by \$50,412, which in turn resulted in an increase in change in net assets, from \$(75,565) to \$(25,153).

**DAWSON COMMUNITY COLLEGE**

**Other Post Employment Benefits  
Schedule of Funding Progress**

**Years Ended June 30, 2012 and 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
June 30, 2011	\$ 0	\$ 1,234,517	\$ 1,234,517	0.00 %	\$ 2,641,259	46.73 %
June 30, 2009	\$ 0	\$ 1,612,783	\$ 1,612,783	0.00 %	\$ 4,194,987	38.45 %

## Supplementary Information



# DAWSON COMMUNITY COLLEGE

## Student Financial Aid Modified Statement of Cash Receipts and Disbursements

For the Year Ended June 30, 2012

	<u>Pell</u>	<u>Perkins</u>	<u>CWS</u>	<u>SEOG</u>
<b>Assets</b>				
Beginning cash balance	\$	\$ 12,912	\$	\$
Additions				
Federal advances	697,821		18,332	34,935
State matching funds				11,645
Interest collected		973		
Interest investments		17		
Principal collected		8,024		
Loans cancelled		1,430		
Total additions	<u>697,821</u>	<u>10,444</u>	<u>18,332</u>	<u>46,580</u>
Deductions				
Distribution to students	697,821		20,165	46,580
Administrative expenses		5,612		
Other: Transfer to College				
Total deductions	<u>697,821</u>	<u>5,612</u>	<u>20,165</u>	<u>46,580</u>
Reconciling Items				
Net change in accounts receivable	<u>                    </u>	<u>3,813</u>	<u>1,833</u>	<u>                    </u>
Net change to cash	<u>                    </u>	<u>8,645</u>	<u>                    </u>	<u>                    </u>
Ending cash balance	<u>\$</u>	<u>\$ 21,557</u>	<u>\$</u>	<u>\$</u>

# DAWSON COMMUNITY COLLEGE

## Student Financial Aid Modified Statement of Cash Receipts and Disbursements

For the Year Ended June 30, 2011

	<u>Pell</u>	<u>Perkins</u>	<u>CWS</u>	<u>SEOG</u>
<b>Assets</b>				
Beginning cash balance	\$	\$ 11,766	\$	\$
Additions				
Federal advances	840,347		17,559	34,935
State matching funds				12,545
Interest collected		750		
Principal collected		10,883		
Loans cancelled		3,110		
Total additions	<u>840,347</u>	<u>14,743</u>	<u>17,559</u>	<u>47,480</u>
Deductions				
Distribution to students	752,369	10,447	18,332	47,480
Administrative expenses		6,834		
Other: Return of funds	<u>87,978</u>			
Total deductions	<u>840,347</u>	<u>17,281</u>	<u>18,332</u>	<u>47,480</u>
Reconciling Items				
Net change in accounts receivable		<u>3,684</u>	<u>773</u>	
Net change to cash		<u>1,146</u>		
Ending cash balance	<u>\$</u>	<u>\$ 12,912</u>	<u>\$</u>	<u>\$</u>

**DAWSON COMMUNITY COLLEGE**

**Schedule of Expenditures  
Student Financial Assistance Programs**

**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Perkins Loan Program		
Student loan advances	\$ <u>          </u>	\$ <u>10,447</u>
College Work Study		
Wages	\$ <u>20,165</u>	\$ <u>18,332</u>
Supplemental Education Opportunity Grant Program		
Student grants	\$ 46,580	\$ 47,480
Administrative cost	\$ <u>46,580</u>	\$ <u>47,480</u>
Pell grant program		
Student grants	\$ 697,821	\$ 752,369
Administrative cost	\$ <u>697,821</u>	\$ <u>752,369</u>

**DAWSON COMMUNITY COLLEGE**

**Schedule of Full Time Equivalent**

**For the Years Ended June 30, 2012 and 2011**

<b>Semester</b>	<b>Resident</b>	<b>WUE</b>	<b>Nonresident</b>	<b>Total</b>
<b>2012</b>				
Summer 2011	42.9	2.9	0.3	46.1
Fall 2011	248.4	49.5	43.8	341.7
Spring 2012	<u>256.1</u>	<u>44.2</u>	<u>42.0</u>	<u>342.3</u>
	<u>547.4</u>	<u>96.6</u>	<u>86.1</u>	<u>730.1</u>
<b>Semester</b>	<b>Resident</b>	<b>WUE</b>	<b>Nonresident</b>	<b>Total</b>
<b>2011</b>				
Summer 2010	71.8	1.7	3.3	76.8
Fall 2010	300.6	60.5	33.1	394.2
Spring 2011	<u>281.3</u>	<u>53.1</u>	<u>32.2</u>	<u>366.6</u>
	<u>653.7</u>	<u>115.3</u>	<u>68.6</u>	<u>837.6</u>

**DAWSON COMMUNITY COLLEGE**

**Functional Classification of Operating Expenses**

**For the Year Ended June 30, 2012**

	<u><b>Instruction</b></u>	<u><b>Academic Support</b></u>	<u><b>Student Services</b></u>	<u><b>Institutional Support</b></u>
Salaries	\$ 1,260,871	\$ 108,682	\$ 487,623	\$ 420,376
Benefits	389,034	93,548	183,686	315,445
Travel	18,245	1,260	163,712	11,688
Supplies	61,616	12,153	202,194	117,807
Contracted services	186,330	2,052	45,685	175,695
Repairs and maintenance			37,943	59,356
Student support				
Utilities			31,144	16,462
Communication	4,855		20,373	6,399
Scholarships and grants				
Bad debt expense	12,150			4,477
Other operating expense	34,444	16,527	32,556	109,792
Depreciation				
Total operating expenses	<u>\$ 1,967,545</u>	<u>\$ 234,222</u>	<u>\$ 1,204,916</u>	<u>\$ 1,237,497</u>

**DAWSON COMMUNITY COLLEGE**

**Functional Classification of Operating Expenses**

**For the Year Ended June 30, 2012**

<b>Scholarships and Fellowships</b>	<b>Operations and Maintenance of Plant</b>	<b>Auxiliary</b>	<b>Depreciation</b>	<b>Total</b>
\$	\$ 164,092	\$ 95,565	\$	\$ 2,537,209
	75,268	43,810		1,100,791
	445			195,350
	34,542	89,832		518,144
		166,826		576,588
	49,466	21,927		168,692
894,166				894,166
	90,126	15,675		153,407
	17,388	11,721		60,736
853,861				853,861
				16,627
	767	50,222		244,308
			419,730	419,730
<u>\$ 1,748,027</u>	<u>\$ 432,094</u>	<u>\$ 495,578</u>	<u>\$ 419,730</u>	<u>\$ 7,739,609</u>

See Accompanying Notes to the Financial Statements.

**DAWSON COMMUNITY COLLEGE**

**Functional Classification of Operating Expenses**

**For the Year Ended June 30, 2011**

	<u><b>Instruction</b></u>	<u><b>Academic Support</b></u>	<u><b>Student Services</b></u>	<u><b>Institutional Support</b></u>
Salaries	\$ 1,456,382	\$ 181,920	\$ 311,508	\$ 464,335
Benefits	440,980	93,207	88,679	392,679
Travel	17,074	351	154,310	10,105
Supplies	113,406	29,400	100,756	118,124
Contracted services	148,324	165	42,046	453,373
Repairs and maintenance	807		12,532	60,304
Student support				
Utilities			547	140,483
Communication	891		908	3,123
Scholarships and grants				
Bad debt expense	13,386			1,667
Equipment			5,002	35,918
Other operating expense	11,853	1,994	34,402	104,715
Depreciation				
Total operating expenses	<u>\$ 2,203,103</u>	<u>\$ 307,037</u>	<u>\$ 750,690</u>	<u>\$ 1,784,826</u>

<b>Scholarships and Fellowships</b>	<b>Operations and Maintenance of Plant</b>	<b>Auxiliary</b>	<b>Depreciation</b>	<b>Total</b>
\$	\$ 131,845	\$ 95,091	\$	\$ 2,641,081
	64,843	42,945		1,123,333
				181,840
	29,732	150,760		542,178
	382	181,657		825,947
	45,452	78,797		197,892
991,501				991,501
	14,830	3,230		159,090
	14,967	12,166		32,055
958,975				958,975
		879		15,053
				41,799
	1,600	5,143		159,707
			416,938	416,938
<u>\$ 1,950,476</u>	<u>\$ 303,651</u>	<u>\$ 570,668</u>	<u>\$ 416,938</u>	<u>\$ 8,287,389</u>



**DAWSON COMMUNITY COLLEGE**

**Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2012**

<b>Federal Grantor/Pass-through Grantor/Program</b>	<b>CFDA Number</b>	<b>Federal Grant Award Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Health and Human Services</b>			
<b><u>Administration for Children and Families:</u></b>			
<b><u>Passed-through the Department of Social and Rehabilitation Services:</u></b>			
Child Care and Development Block Grant	93.575	1002HIED007	\$ 19,776
Child Care and Development Block Grant	93.575	1002HIED007	43,172
<b>Total U.S. Department of Health and Human Services</b>			<u>62,948</u>
<b>U.S. Department of Education</b>			
<b><u>Office of Student Financial Assistance Programs:</u></b>			
<b><u>Student Financial Aid Cluster</u></b>			
Federal Supplemental Education Opportunity Grants	84.007	N/A	34,935
Federal Work-Study Program	84.033	N/A	20,165
Federal Family Education Loans	84.032	N/A	894,166
Federal Pell Grant Program	84.063	N/A	697,821
Federal Perkins Loans - Current Portion	84.038	N/A	0
Federal Perkins Loans	84.038	N/A	70,096
<b>Total Student Financial Aid Cluster</b>			<u>1,717,183</u>
<b><u>Office of Postsecondary Education:</u></b>			
TRIO Student Support Services	84.042	P042A050570	213,698
TRIO Student Support Services	84.042	P042A050570	75,157
<b>Total TRIO Student Support Services</b>			<u>288,855</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	N/A	25,206
<b>Total Office of Postsecondary Education</b>			<u>314,061</u>
<b><u>Office of Vocational and Adult Education:</u></b>			
<b><u>Passed through the Office of Public Instruction:</u></b>			
Adult Education - Basic Grants to States	84.002	58-6502-5607BG	22,415
<b>Total U.S. Department of Education</b>			<u>2,053,659</u>
<b><u>Corporation for National and Community Service:</u></b>			
<b><u>Passed through the University of Montana:</u></b>			
Campus Corp - ARRA	94.006	PG12-67449-02	10,784
<b>Total Corporation for National and Community Service</b>			<u>10,784</u>
<b>Total Federal Awards</b>			<u><u>\$2,127,391</u></u>

See Notes to Supplementary Schedule of Expenditures of Federal Awards.

**DAWSON COMMUNITY COLLEGE**

**Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2011**

<b>Federal Grantor/Pass-through Grantor/Program</b>	<b>CFDA Number</b>	<b>Federal Grant Award Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Labor</b>			
<b><u>Employment Training Administration:</u></b>			
<b>Passed-through the Office of the Commissioner of Higher Education:</b>			
WIA Section 503	17.627	WIA Section 503	\$ 13
<b>Total U.S. Department of Labor</b>			<u>13</u>
<b>U.S. Department of Health and Human Services</b>			
<b><u>Administration for Children and Families:</u></b>			
<b>Passed-through the Department of Social and Rehabilitation Services:</b>			
Child Care and Development Block Grant	93.575	1002HIED007	36,460
Child Care and Development Block Grant	93.575	1002HIED007	13,068
Child Care and Development Block Grant	93.575	1002ment0022	11,475
<b>Total U.S. Department of Health and Human Services</b>			<u>61,003</u>
<b>U.S. Department of Education</b>			
<b><u>Office of Student Financial Assistance Programs:</u></b>			
<b>Student Financial Aid Cluster</b>			
Federal Supplemental Education Opportunity Grants	84.007	N/A	34,935
Federal Work-Study Program	84.033	N/A	18,332
Federal Family Education Loans	84.032	N/A	927,873
Academic Competitiveness Grant	84.375	N/A	24,500
Federal Pell Grant Program	84.063	N/A	752,369
Federal Perkins Loans - Current Portion	84.038	N/A	10,447
Federal Perkins Loans	84.038	N/A	69,101
<b>Total Student Financial Aid Cluster</b>			<u>1,837,557</u>
<b><u>Office of Postsecondary Education:</u></b>			
TRIO Student Support Services	84.042	P042A100092	261,170
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	N/A	36,729
<b>Total Office of Postsecondary Education</b>			<u>297,899</u>
<b><u>Office of Vocational and Adult Education:</u></b>			
<b>Passed through the Office of Public Instruction:</b>			
Adult Education - Basic Grants to States	84.002	58-6502-5607BG	29,297
<b>Passed-through State of Montana:</b>			
ARRA - State Fiscal Stabilization Fund	84.397		602,294
<b>Total U.S. Department of Education</b>			<u>2,767,047</u>
<b><u>Corporation for National and Community Service:</u></b>			
<b>Passed through the University of Montana:</b>			
Campus Corp - ARRA	94.006	PG11-67348-04	15,516
<b>Total Corporation for National and Community Service</b>			<u>15,516</u>
<b>Total Federal Awards</b>			<u><u>\$2,843,579</u></u>

See Notes to Supplementary Schedule of Expenditures of Federal Awards.

## DAWSON COMMUNITY COLLEGE

### Notes to Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

#### **Note 1 - Basis of Accounting**

The accompanying schedules of expenditures of federal awards (the "schedules") include the federal grant activity of Dawson Community College under programs of the federal government for the years ended June 30, 2012 and June 30, 2011. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedules present only a selected portion of the operations of the Dawson Community College, they are not intended to and do not present the financial position, changes in net assets, or cash flows of Dawson Community College.

#### **Note 2 - Summary of Significant Accounting Policies**

Expenditures reported on the schedules are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

#### **Note 3 - Subrecipients**

Of the federal expenditures presented in the schedules, the College provided no awards to subrecipients.

#### **Note 4 - Outstanding Federal Loans**

The College has the following federal loan obligation as of June 30, 2012 and June 30, 2011:

- USDA - Rural Development - used in the construction of the student dormitories. The total loan amount was \$700,000, of which \$600,152 and \$610,484 are outstanding as of June 30, 2012 and June 30, 2011, respectively.

#### **Note 5 - Reconciliation of Expenditures**

The following is a reconciliation of the expenditures reported on the College's schedule of expenditures of federal awards to federal grant revenue reported in the College's statement of revenues, expenses and changes in net assets.

	<u>2012</u>	<u>2011</u>
Expenditures on schedule of expenditures of federal awards	\$ 2,127,391	\$ 2,843,579
Perkins Loans outstanding at year-end	(70,096)	(79,548)
Corrections for prior year		5,277
Change in amounts reported as accrued/deferred/fund balance	<u>33,248</u>	<u>32,326</u>
Federal grant revenue per financial statements	<u>\$ 2,090,543</u>	<u>\$ 2,801,634</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

**Board of Trustees  
Dawson Community College  
Dawson County  
Glendive, Montana**

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of Dawson Community College (the "College") as of and for the year ended June 30, 2012 and 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated July 31, 2013. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the College's discretely presented component unit, Dawson College Foundation, Inc. These financial statements were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Dawson College Foundation, Inc.

**Internal Control Over Financial Reporting**

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 12-1 to be a material weakness in internal control.

**Dawson Community College  
Report on Internal Control over Financial  
Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance  
With *Government Auditing Standards*  
Page 2**

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 12-2 and 12-3 to be significant deficiencies in internal control.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Dawson Community College's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit Dawson Community College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Dawson Community College management, the Board of Trustees, the State of Montana Legislative Audit Division, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

JOSEPH EVE  
Certified Public Accountants

**Billings, Montana  
July 31, 2013, except as to note 16, which is as of March 28, 2014**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Board of Trustees  
Dawson Community College  
Dawson County  
Glendive, Montana**

**Compliance**

We have audited the compliance of Dawson Community College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011.

This report on compliance and internal control over compliance is reissued and replaces the previously issued report. The report is reissued due to the discovery of an additional major program that was required to be tested. The College received and expended \$602,294 of ARRA - State Fiscal Stabilization Fund monies during fiscal year 2011. This federal award was omitted from the original schedule of expenditures of federal awards (SEFA). The SEFA has been revised to include the \$602,294. Additionally, the program has been added as a major federal program on the schedule of findings and questioned costs.



**Dawson Community College  
Independent Auditors' Report on Compliance with  
Requirements That Could Have a Direct  
and Material Effect on Each Major Program  
and on Internal Control over Compliance  
in Accordance with OMB Circular A-133  
Page 2**

**Internal Control over Compliance**

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the College's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the College's compliance but not to provide an opinion on the effectiveness of the College's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

JOSEPH EVE  
Certified Public Accountants

**Billings, Montana  
July 31, 2013, except for the ARRA - State Fiscal Stabilization Fund major federal program,  
which is as of March 28, 2014**

**DAWSON COMMUNITY COLLEGE**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2012 and 2011**

**1. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified - Business-type activities  
 Unqualified - Discretely presented component unit

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes        No
- Significant deficiency(ies) identified?   X   Yes        None reported
- Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiency(ies) identified?        Yes   X   None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?        Yes   X   No

**Identification of major programs**

<b><u>CFDA Number(s)</u></b>	<b><u>Federal Program or Cluster</u></b>
84.007, 84.033, 84.032, 84.063, 84.038, 84.375	Student Financial Aid Cluster
84.042	TRIO Student Support Services
84.397	ARRA - State Fiscal Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?        Yes   X   No



**DAWSON COMMUNITY COLLEGE**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2012 and 2011**

**2. Audit Findings in Relation to Financial Statements**

**12-1 Internal Controls - Account Reconciliations**

**Criteria or Specific Requirement:** The reconciliation of account balances is an important internal control activity performed by management to determine that the stated account balances are recorded, presented and fairly reported. Additionally, the accounting software should be capable of producing, at a minimum, detailed financial reports for review and use by management and those charged with governance. Such information is necessary as a management tool, to provide information to those charged with governance, to enable monitoring of operations, and to facilitate fiscal accountability at the College.

**Condition:** Management's time has been consumed with the Banner software implementation. The account reconciliation processes have been impeded due to the many implications of this implementation. The Banner software is not yet completely functional, and management's time has been consumed with learning the software and trying to make it work in the accounting environment in which the College operates. Also, the software package does not produce reports or financial statements and, as a result, those reports have to be written. The College has not had useful reports or any financial statements for the past couple of years. Reconciliations were not performed timely on the College's accounts. The following accounts still required work during audit fieldwork as a result:

- Cash
- Accrued and deferred grant revenue
- Capital assets
- Accounts receivable
- Accounts payable
- Transfers

**Context:** We made inquiries of management, reviewed account balances and performed analytical procedures.

**Effect:** Without the benefit of accurate financial reports or statements, and because accounts could not be reconciled for a long period of time, management and those charged with governance were not able to adequately perform their duties as they had in the past, or as their positions require. Additionally, when accounts are unreconciled due to lack of resources (including time), any reports that are obtained from the software system may not be accurate anyway. Also, the probability that fraud or material errors will occur and go undetected, greatly increases. When accounts have not been reviewed and reconciled during the year, the accounting department management becomes overburdened with year-end account analysis, resulting in a time-consuming process. The audit process was delayed due to these circumstances, as well.

**Cause:** The Banner implementation is the cause for untimely account reconciliations and the fact that financial statements cannot be produced by management. Additionally, it appears that the Office of Administrative Services employees are overwhelmed with work.

**Auditors' Recommendations:** We recommend the College hire another employee to work in this area, to help with the accounting functions and/or the Banner implementation. We further

**DAWSON COMMUNITY COLLEGE**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2012 and 2011**

**2. Audit Findings in Relation to Financial Statements - Continued**

recommend that this employee's functions be limited to just this area, at least until the Banner software is fully functional and utilized to its fullest extent by the College.

**12-2 Tuition Receivable**

***Criteria or Specific Requirement:*** Accounts receivable and the corresponding revenue should be recorded at its net realizable value. An allowance for doubtful accounts should be established for the tuition receivable balance the College does not believe will be collected from students.

***Condition:*** The College uses the direct write off method for its tuition accounts receivable. Each year management writes off all balances older than five years and assumes all receivables that are one to five years old are fully collectible. The majority of balances outstanding at year-end are greater than two years old and it seems unlikely that they are 100% collectible.

***Context:*** We reviewed the tuition receivable account and requested supporting documentation.

***Effect:*** Tuition receivable is potentially overstated. The exact amount of the overstatement is not known.

***Cause:*** The College does not have an allowance for doubtful accounts established for tuition receivable.

***Auditors' Recommendations:*** The College should develop a method for determining what portion of the tuition receivable is collectible and develop an allowance for doubtful accounts to make sure tuition receivable is recorded at its net realizable value.

**DAWSON COMMUNITY COLLEGE**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2012 and 2011**

**2. Audit Findings in Relation to Financial Statements - Continued**

**12-3 Capital Assets**

**Criteria or Specific Requirement:** Property records should be maintained in accordance with 25 CFR 276.11 and 25 CFR 900.51. The records should be detailed enough that program management is able to adequately and efficiently identify and locate all items. A physical inventory of property should be taken and a detailed listing should be reconciled to the general ledger.

**Condition:** We noted the following:

- The College uses an excel worksheet to maintain capital asset records rather than utilizing a capital asset software.
- A reconciliation of physical inventories to detailed general ledger records is not being performed.

**Context:** We reviewed the capital asset listing and depreciation schedules.

**Effect:** Utilization of an excel spreadsheet for capital asset listing and depreciation expense calculation always leaves room for error, and requires greater time and effort to maintain than a capital asset software program would require.

**Cause:** This is a repeat finding from the 2009 and 2010 audit reports. The College's response at that time was that the Sun Gard software would be implemented and utilized for capital assets, and that the College would perform an entity-wide physical inventory of capital assets. Due to time constraints, neither one of these has occurred.

**Auditors' Recommendations:** The College should perform an entity-wide physical inventory of its capital assets every two years, at a minimum. Once completed, the listing must be reconciled to the general ledger control totals and any necessary adjustments to the general ledger must be made. The College should start using the capital asset module of the Banner accounting software as soon as possible.

**DAWSON COMMUNITY COLLEGE**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2012 and 2011**

3. **Audit Findings and Questioned Costs in Relation to Federal Awards**  
No findings or questioned costs related to federal awards.



June 21, 2013

Joseph Eve  
Certified Public Accountants  
401 North 31<sup>st</sup> Street, Suite 1600  
Billings, Montana 59101

The following is our response to the recommendation made in the 2011 and 2012 audit report for Dawson Community College.

**Finding #12-1 – Internal Controls – Accounts Reconciliation**

**Auditee Response:**

The College concurs with the Auditor's findings and recommendations concerning internal controls – accounts reconciliation. In December 2009 Dawson Community College signed contracts with SunGard to install a fully integrated institutional software program (Program). The College is in the process of implementing, through the University of Montana Data Base Administrators, pertinent financial reports as cited by the Auditor's recommendations. Additionally, we have hired temporary help to complete tasks that have been set aside during the set up and implementation process. This action will give staff time to focus on cleaning up of the original set-up of the Student Accounts Receivable, Finance, Human Resources and related modules. We believe that these steps will significantly improve the day to day functionality of operations, the yearend close and the annual audit process

**Finding #12-2 – Tuition Receivable**

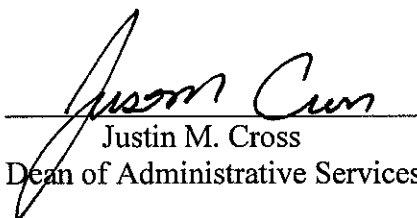
**Auditee Response:**

The College concurs with the Auditor's findings and recommendations concerning Tuition Receivable. In December 2009 Dawson Community College signed contracts with SunGard to install a fully integrated institutional software program (Program). The Program includes a student accounts receivable module that tracks all accounts receivable balances. During the setup and implementation of the Program the Banner Consultants realized that they had not included any training, set up and implementation for the Student Accounts Receivable module. It is this module that links Student Records, Financial Aid and General Modules to the Finance module without which the Program does not work. We were left to our own devices to learn, setup, and implement this module and we had three weeks to complete the task. Since then we have been reviewing every aspect of the Student Accounts module including the Tuition Receivables. We are developing reports and making corrections as needed and believe that this module is quickly approaching full functionality. The College has hired temporary help that will free up time for staff to focus on this challenge.

### **Finding #12-3 – Capital Assets**

#### **Auditee Response:**

The College concurs with the Auditor's findings and recommendations concerning Capital Assets. . In December 2009 Dawson Community College signed contracts with SunGard to install a fully integrated institutional software program (Program). The College received training on the Program's Fixed Asset Module. Unfortunately, it was during that training that the Banner Consultant realized that the Module was not working as planned and suspended the Fixed Asset training session. We are working towards resolving this challenge. The College has hired temporary help that will be utilized in performing an entity-wide physical inventory of capital assets.

  
Justin M. Cross  
Dean of Administrative Services

4/21/13  
Date

**DAWSON COMMUNITY COLLEGE**  
**Summary Schedule of Prior Audit Findings**  
**June 30, 2012 and 2011**

The following summarizes the prior audit findings and corrective action taken:

- Finding 10-1**      Capital Assets - **Not Implemented**  
                         See page 69 for corrective action planned.
- Finding 10-2**      Propriety of Accounts Payable - **Implemented**
- Finding 10-3**      Tuition Receivable - **Not Implemented**  
                         See page 68 for corrective action planned.